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December 8, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Salas
Secretary
Federal Communications Commission
Room TW-A325, The Portals
445 Twelfth Street, S. W.
Washington, DC 20554

RE: In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor, To SBC Communications, Inc., Transferee, (CC Docket No. 98-141)

SBC Communications, Inc. ("SBC") hereby files its supplemental report to the Federal Communications Commission ("FCC" or "Commission"). This supplemental report was requested by the FCC, and agreed to by SBC, to provide additional details underlying the audit report that Ernst & Young, its independent auditor, filed with the FCC on September 1, 2000. That audit report was filed pursuant to Appendix C (Merger Conditions)¹ regarding SBC's compliance with the SBC/Ameritech Merger Conditions, on the procedures agreed to by management of SBC and the FCC covering the period October 8, 1999 through December 31, 1999.

Upon reviewing the September 1, 2000 audit report required by Paragraph 66(e) of the Merger Conditions, the staff of the Accounting Safeguards Division of the FCC requested that Ernst & Young provide additional details it learned during the course of the audit. The FCC and SBC agreed that these additional details found in the SBC documents Ernst & Young reviewed could be included in a supplemental report. Pursuant to 47 C.F.R. § 0.459, under separate transmittal, SBC requests confidential treatment of certain proprietary commercial and financial information contained in the supplemental audit report filed with the FCC on December 8, 2000.

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A handwritten signature, likely of the Secretary, is written over the signature line of the distribution list.

¹ Application of Ameritech Corp. and SBC Communications, Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses Pursuant to Section 214 and 310 (d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 14712 (1999).

Ms. Magalie Salas
December 8, 2000
Page 2

A copy of the redacted supplemental report is attached. Once SBC has had an opportunity to thoroughly conduct a review of this report and the auditor's work papers, SBC will be prepared to respond to or otherwise address any issues contained in them.

Sincerely,

A handwritten signature in black ink, appearing to read "Anne L. Wynn". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Vice President – Federal Regulatory

Attachment

cc: Ms. Carol Matthey
Mr. Anthony Dale
Mr. Hugh Boyle
Mr. Mark Stephens

**Report of Independent Accountants on
Applying Agreed-Upon Procedures'
Supplemental Information**

To the Management of SBC Communications Inc.

At the request of SBC Communications Inc. ("SBC") and the Federal Communications Commission ("FCC"), we prepared the attached supplemental information (Appendix C) regarding the results of certain procedures agreed to by management of SBC and the FCC. These procedures were performed solely to assist in evaluating management's assertion that SBC complied with the separate affiliate requirements set forth in Section I of Appendix C of the FCC's Order approving the SBC/Ameritech Merger, CC Docket 98-141, released October 8, 1999 ("Separate Affiliate Requirements"), during the period October 8, 1999 through December 31, 1999 ("the Evaluation Period"). This supplement should be read in conjunction with our original Report of Independent Accountants on Agreed-Upon Procedures dated August 31, 2000.

Our agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in our original agreed-upon procedures report dated August 31, 2000 or the supplemental information provided in the attached Appendix C either for the purpose for which this report has been requested or for any other purpose. The procedures and the resulting findings are not intended to be an interpretation of any legal or regulatory rules, regulations or requirements.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on SBC's compliance with the Separate Affiliate Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

To the Management of SBC Communications Inc.

Page 2

This report is intended solely for the information and use of management of SBC and the FCC and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

August 31, 2000

APPENDIX C

Results of Agreed-Upon Procedures Supplemental Information

The definitions of the following terms are documented in Appendix B to our original Report of Independent Accountants on Agreed-Upon Procedures dated August 31, 2000: Advanced Services, Advanced Services Affiliate(s), Advanced Services Equipment, Ameritech States, Assets, ILECs, Merger Close Date, Merger Conditions, Official Services and SBC States.

The following supplemental information corresponds to the report items listed in Appendix A of our original Report of Independent Accountants on Applying Agreed-Upon Procedures dated August 31, 2000 and has been derived from the original information determined through our procedures and documentation received as reflected in Appendix A to our original report.

As Originally Presented in Appendix A

- 2) Obtained and inspected the SBC corporate organizational charts as of December 16, 1999 and confirmed with legal representatives of the ILECs and Advanced Services Affiliates the legal, reporting and operational corporate structure of the Advanced Services Affiliates. Determined the Advanced Services Affiliates were independent from the ILECs and documented who owned the Advanced Services Affiliates and to whom they reported.

Supplemental Information

ASI was a 100% owned subsidiary of SBC Communications Inc. ADSI was also a 100% owned subsidiary of SBC Communications Inc. until ADSI merged into ASI on December 20, 1999. ASI's president reported directly to SBC's vice chairman of Operations during the Evaluation Period. Prior to its merger into ASI, ADSI's president also reported to SBC's vice chairman of Operations.

Each of the AADS Advanced Services Affiliates was 100% owned by Ameritech Corporation. Management of AADS reported to the president of ASI.

As Originally Presented in Appendix A

- 3) Obtained a functional organizational chart for each Advanced Services Affiliate as of December 31, 1999 and obtained SBC's documentation for each department of the number of employees, street addresses where employees were located and description of functions performed by location.

APPENDIX C (continued)

Supplemental Information

As of December 31, 1999, AADS employed located throughout the Former Ameritech States. The AADS employees were classified in the following functional departments: Project Management, Field Operations, Customer Care, Design Engineering, Technical Support, WAN-Management Logistics, Provisioning and Executive/Finance/Support.

As of December 31, 1999, ASI employed

 The ASI employees were classified in the following functional departments: Finance, Human Resources, Network Planning & Engineering, Operations, Sales Operations, Transition and President.

ADSI had no employees during the Evaluation Period. All support was provided by non-ILEC affiliate employees and billed to ADSI through affiliate transactions.

As Originally Presented in Appendix A

- 7) Obtained/documented the accounting procedures and policies utilized by each Advanced Services Affiliate during the Evaluation Period. This documentation included our understanding of the accounting systems, processes, transaction flows and control points affecting revenue, accounts receivable, cash receipts, purchasing, accounts payable, cash disbursements, payroll, fixed assets and recording of affiliate transactions.

Supplemental Information

ASI maintained a separate general ledger from the ILECs and outsourced general ledger accounting support, purchasing, fixed asset processing, payroll, cash disbursements, and accounts payable support to the ILECs (SWBT, Pacific and SNET) under affiliate agreements.

ASI did not have customers during the Evaluation Period, so revenue, cash remittance and accounts receivable systems were not utilized. In 1999, ASI did not record revenues directly, but recognized revenues through the merger of ADSI into ASI on December 20, 1999. ADSI revenues were earned by leasing equipment to SWBT and were recorded when the manual bill, issued by ADSI, was entered into the Oracle financial accounting system and a corresponding account payable was created on SWBT's books. The entry clearing ADSI's receivable and SWBT's payable was included in recurring affiliate transaction settlement procedures.

AADS maintained a separate general ledger from the ILECs and outsourced general ledger accounting support, accounts payable support and payroll processing to an SBC administrative services organization (Ameritech Services, Inc.). AADS

APPENDIX C (continued)

maintained its own revenue and accounts receivable system. Cash remittance operations were outsourced to Ameritech Information Systems, Inc. while actual cash management and cash disbursements were performed by Ameritech Services, Inc.

Prior to November 1999, AADS outsourced its purchasing function to Ameritech Information Systems, Inc. In November 1999, Ameritech Data Network Solutions, Inc. began providing purchasing support to AADS.

As Originally Presented in Appendix A

- 11) Obtained the ILECs' and Advanced Services Affiliates' policies and procedures for transferring, sharing and loaning employees between each other and identified the types of controls that SBC indicated were in place during the Evaluation Period to prevent one from being an officer, director or employee of both the ILEC and the Advanced Services Affiliate at the same time.

Supplemental Information

Identified the following controls over transferring, sharing and loaning employees, and preventing duplicate employment between SBC and affiliates.

Controls for employees – SBC's electronic payroll systems used by the ILECs and the Advanced Services Affiliates only allow an employee (using the same social security number) to be actively employed and paid by one subsidiary (i.e., the ILECs or ASI/AADS) at a time. SBC's mechanized system will kick out any duplicative social security numbers and stop processing, until duplications are investigated and resolved by Human Resources.

Controls for officers and directors – Prior to appointment of any new officer positions or transfers of current officers, review must be obtained from SBC's Senior Vice President and General Counsel-External Affairs who is responsible for Section 272 compliance in regard to the resulting corporate structure under Section 272(b)(3). SBC's General Attorney and Assistant General Counsel supervise a group responsible for preclearing the Board of Director resolutions for Director appointments. This group clears Director positions with designated persons in SBC's Senior Vice President and General Counsel-External Affairs' group prior to filling any Director position.

As Originally Presented in Appendix A

- 12) Inquired and noted that the Advanced Services Affiliates and the ILECs maintain separate boards of directors and separate officers. Obtained a list of officers' and directors' names for the ILECs and Advanced Services Affiliates for the Evaluation Period and compared and documented the names appearing on both lists. Noted that for the period October 8, 1999 through the date ADSI merged into ASI on

APPENDIX C (continued)

December 20, 1999, four individuals' names appeared on both an ILEC and ADSI list. SBC management represented that ADSI is not an Advanced Services Affiliate as defined in the Merger Conditions and therefore is not subject to the requirement to maintain separate officers and directors from the ILECs.

Read the minutes of the meetings of the board of directors for each ILEC and each Advanced Services Affiliate for the Evaluation Period and compared and documented the names appearing on the minutes of the ILECs and each Advanced Services Affiliate. Noted that two individuals' names appeared in the minutes of both an ILEC and an Advanced Services Affiliate within the Evaluation Period. On August 8, 2000, we received confirmation from the individuals involved that as of October 31, 1999, it was the agreement and understanding between the respective ILECs and the individuals that these individuals had resigned their previous positions. This date was prior to the date they became officers or directors of the Advanced Services Affiliate.

Supplemental Information

ADSI – During the Evaluation Period, three individuals served as directors of ADSI and at least one ILEC simultaneously (SWBT, Pacific, Nevada Bell and SNET) until ADSI merged into ASI on December 20, 1999 versus four as originally reported.

ASI – One individual was listed as a director of ASI, beginning on November 24, 1999; he previously served as an officer of Pacific and Nevada Bell. Another individual was listed as an officer of ASI in a consent of the Board of Directors of ASI dated November 29, 1999; he previously served as an officer of SWBT. Both these individuals were listed in the separate consents of the Board of Directors of Pacific, Nevada Bell and SWBT dated December 3, 1999 as being removed from all offices previously held.

As Originally Presented in Appendix A

- 16) Reviewed each Advanced Services Affiliate's contracts with major suppliers of goods and services and noted no guarantees or recourse to the ILECs' assets, either directly or indirectly through an affiliate. Major suppliers were defined as those having \$500,000 or more in annual sales to the Advanced Services Affiliate. Noted no debt agreements/instruments or credit arrangements with lenders or major suppliers.

Supplemental Information

SBC represented that there were no debt agreements/instruments or credit arrangements with lenders or major suppliers. As such, there were no guarantees or recourse to the ILECs' assets.

APPENDIX C (continued)

As Originally Presented in Appendix A

17) As there were no Advanced Services Affiliate lease agreements given to us where the annual obligation was \$500,000 or more, no testing was performed to determine whether the Advanced Services Affiliates' lease agreements had recourse to the ILECs' assets, either directly or indirectly through another affiliate. Also reviewed the listing of Advanced Services employee work locations obtained in **Procedure 3** and noted that the Advanced Services Affiliates' employee work locations were either covered under a lease agreement or owned outright by one of the Advanced Services Affiliates, except for the following:

- Two employees working from home
- One location in which an employee worked in the space of a nonaffiliated company pursuant to the terms of a maintenance contract with that company
- Six locations in space owned or leased by nonregulated affiliates; SBC has indicated that it either has moved the employees from these locations or will establish lease agreements and bill the corresponding balances
- Three locations in space owned by ILECs; SBC has indicated that it either has moved the employees from these locations or will establish affiliate agreements and bill the corresponding balances (AADS)

Supplemental Information

For the one Advanced Services Affiliate lease agreement obtained in **Procedure 9** above, noted the lease agreement did not have recourse to the ILECs assets, either directly or indirectly through another affiliate.

As Originally Presented in Appendix A

19) Obtained positive confirmation from lessors attesting to the lack of recourse to the ILECs' assets for a judgmental sample of ten Advanced Services Affiliates' leases with an annual obligation less than \$500,000. There were no leases with an annual obligation greater than \$500,000. SBC indicated there were no loans or credit arrangements outstanding at any Advanced Services Affiliate during the Evaluation Period.

Supplemental Information

For the one Advanced Services Affiliate lease agreement obtained in **Procedure 9** above, obtained positive confirmation from the lessor attesting to the lack of recourse to the ILEC's assets.

APPENDIX C (continued)

As Originally Presented in Appendix A

- 20) Obtained documentation of the balance of accounts payable to and/or advances from the ILECs as of December 31, 1999 for each Advanced Services Affiliate.

Supplemental Information

AADS's and ASI's net payable (receivable) balances to the ILECs at December 31, 1999 were as follows:

	<u>AADS</u>	<u>ASI</u>
Ameritech Illinois		
Ameritech Indiana		
Ameritech Ohio		
Ameritech Michigan		
Ameritech Wisconsin		
SWBT		
SNET		
Pacific		
Nevada Bell		
Total payable to ILECs		

As Originally Presented in Appendix A

- 21) Documented the procedures used by the ILECs and the Corporate Compliance Officer to identify, track and respond to complaints relating to alleged noncompliance with the Advanced Services provisions of the SBC/Ameritech Merger Conditions, including written complaints submitted directly to the ILECs, written complaints submitted indirectly to the ILECs through their parents and affiliates, written complaints submitted to the ILECs in connection with regulatory complaint processes and oral complaints made through official complaint channels made available to competitors and other complainants. Obtained from the ILECs and the Corporate Compliance Officer a list of all documented complaints involving alleged noncompliance with the Advanced Services provisions of the SBC/Ameritech Merger Conditions, including post merger complaints submitted by competitors related to the provision or procurement of goods, services, facilities and information, or in connection with the establishment of standards. This list groups the complaints in the following categories:

- Allegations of cross-subsidies

APPENDIX C (continued)

- Allegations of discriminatory provision or procurement of goods, services, facilities or customer network services information (excludes customer proprietary network information ("CPNI")) or the establishment of standards
- Allegations of discriminatory processing of orders for, and provisioning of, unbundled network elements, and discriminatory resolution of network problems
- Allegations of discriminatory availability of unbundled network elements
- Allegations of discriminatory availability of facilities or services not at the same rates and not on the same terms and conditions as the separate Advanced Services Affiliate

For each group of complaints, determined by inquiry and documented SBC's response as to how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved. For those complaints that had been resolved, obtained SBC's documentation of how those allegations were concluded and, if the complaint was upheld, inquired and obtained SBC's documentation of what steps the company had taken to prevent those practices from recurring.

Supplemental Information

The Company defines a merger condition complaint as any inquiry that directly refers specifically to the FCC or state commission merger conditions, or contains allegations, which, if true, would establish a violation of the merger conditions. Complaints include written inquiries submitted directly to SBC or any SBC affiliate, written inquiries submitted indirectly to SBC or any SBC affiliate, written inquiries made to regulatory agencies and oral inquiries made through official channels made available to competitors or other complainants. Complaints do not include public statements or declarations, requests made by CLECs in SBC industry collaboratives or workshops, responses made to a merger condition plan of record, responses to regulatory filings, statements made to negotiators during the negotiation process or statements made to account representatives which were resolved without escalation to senior management.

SBC indicated that the following procedures were used by the ILECs and the Corporate Compliance Officer to identify, track and respond to complaints relating to alleged noncompliance with the Advanced Services provisions of the Merger Conditions during the Evaluation Period. The SBC Compliance Officer directed each business unit officer responsible for compliance with the Merger Conditions to refer any complaints or inquiries regarding merger compliance to the Executive Director-

APPENDIX C (continued)

FCC Merger Compliance. This directive was given numerous times on weekly conference calls with the business unit officers to discuss the status of compliance with the Merger Conditions. The Executive Director-FCC Merger Compliance's responsibility was to ensure that a listing of all complaints was maintained, that all complaints were acknowledged and investigated with appropriate input from the legal and affected business unit and that the resolution was documented. If complaints were found to be related to the Merger Conditions, the Executive Director-FCC Merger Compliance reported the complaint to the Corporate Compliance Officer. Obtained from the ILECs and the Corporate Compliance Officer a list of all documented complaints involving alleged noncompliance with the Advanced Services provisions of the SBC/Ameritech Merger Conditions, including post merger complaints submitted by competitors related to the provision or procurement of goods, services, facilities and information, or in connection with the establishment of standards. This list groups the complaints in the following categories:

- Allegations of cross-subsidies (no complaints received)
- Allegations of discriminatory provision or procurement of goods, services, facilities or customer network services information (excludes customer proprietary network information ("CPNI")) or the establishment of standards (no complaints received)
- Allegations of discriminatory processing of orders for, and provisioning of, unbundled network elements, and discriminatory resolution of network problems (no complaints received)
- Allegations of discriminatory availability of unbundled network elements (no complaints received)
- Allegations of discriminatory availability of facilities or services not at the same rates and not on the same terms and conditions as the separate Advanced Services Affiliate (two complaints received, two complaints resolved as noted below)

On December 2, 1999, NorthPoint Communications, Inc. ("NorthPoint") filed a complaint with the FCC regarding several issues raised in California and Texas with regard to the proposed interconnection agreements between ASI and the ILECs (Pacific and SWBT). Issues raised by NorthPoint in the California and Texas filings included but were not limited to the following: (1) all material terms and conditions should be sufficiently specific that carriers like NorthPoint could evaluate them for opt-in opportunities to ensure nondiscrimination; (2) the interconnection agreements did not contain details regarding ASI's use of shared lines; (3) the agreement lacked

APPENDIX C (continued)

sufficient detail concerning collocation and sub-loop unbundling; and (4) the agreement appears to bind persons who are not party to the agreement. SBC responded to NorthPoint's claims in a letter dated December 27, 1999 that informed NorthPoint that SBC was not in violation of the Merger Conditions and provided clarifying information to support their position. Both interconnection agreements between ASI and the ILECs were subsequently approved by the respective state commissions.

MCI World Com filed formal comments before the Kansas Corporation Commission that contained allegations regarding SBC's compliance with the Merger Conditions during the joint application of SWBT and ASI for approval of ASI's interconnection agreement in Docket 00-SWBT-248-IAT. On January 19, 2000, the Kansas Corporation Commission issued a Final Order approving the interconnection agreement between SWBT and ASI conditioned on the parties filing amendments relative to interim line sharing and surrogate line sharing charges. In a letter dated January 13, 2000, the FCC raised two issues regarding the interconnection agreement between SWBT and ASI in Kansas: (1) whether so-called "Interim Line Sharing" between SWBT and ASI must be included in ASI's interconnection agreement with SWBT; and (2) whether the discounted "Surrogate Line Sharing" arrangement that SWBT offered to unaffiliated providers of Advanced Services, but not to ASI, must be included in ASI's interconnection agreement. In a letter dated January 20, 2000 from SBC to the FCC, SBC indicated that the language and logic of the Merger Conditions establish the answer to both questions as "No" but agreed to add the "Surrogate Line Sharing" charges and "Interim Line Sharing" conditions to the interconnection agreement between ASI and SWBT in Kansas.

On February 20, 2000, SWBT filed the amended interconnection agreement with the Kansas Corporation Commission. The terms of the amended agreement are now available to all CLECs through the Most-Favored-Nation provisions of Condition XII of the Merger Conditions.

As Originally Presented in Appendix A

- 23) Inquired and documented how the ILECs and each Advanced Services Affiliate disseminate the FCC Rules and Regulations and the conditions of the Merger Agreement and raise awareness among employees for compliance with the rules listed in **Procedure 22** above and the Merger Conditions. This documentation includes a description of the type and frequency of training, literature distributed, company's policy and the supervision employees responsible for ensuring compliance with these rules receive. Interviewed employees responsible for the development and recording of transactions affected by these rules in the books or records of the carrier and determined they were aware of the rules listed in **Procedure 22**.

APPENDIX C (continued)

Supplemental Information

SBC disseminated the requirements of the FCC Rules and Regulations regarding affiliate transactions and the requirements of the Merger Conditions to employees of the ILECs and the Advanced Services Affiliates by posting SBC's policies and contact information regarding affiliate transactions and a copy of the Merger Conditions on the Company Intranet site. Additionally, information regarding the FCC's Rules and Regulations regarding affiliate transactions and the Merger Conditions was disseminated through weekly meetings of Merger Condition team leaders and officers of SBC to discuss compliance activities and through meetings and training programs with various departments within SBC during the Evaluation Period.

As Originally Presented in Appendix A

- 24) Inquired and documented the process that an Advanced Services Affiliate must follow to request any type of service from the ILECs, including the approval process within the ILECs to fulfill a request for service from an Advanced Services Affiliate. Noted that one Advanced Services Affiliate (ASI) requests services directly from the department that provides the service at certain ILECs.

Supplemental Information

For services purchased from the ILECs under a tariff or interconnection agreement amendment, the ILECs' affiliate oversight group is not involved and AADS and ASI request service directly from the department that provides the service.

For all other services, the Advanced Services Affiliate contacts SBC's affiliate transaction oversight group for contract development and pricing in accordance with the FCC's affiliate transaction rules. The affiliate transaction oversight group is responsible for approving all nontariffed services and ensuring that affiliate contracts comply with the affiliate transaction rules.

As Originally Presented in Appendix A

- 27) For all written agreements between the ILECs and each Advanced Services Affiliate, excluding interconnection agreements, agreed the prices and terms and conditions of services and assets shown on the Company's home pages on the Internet to the written agreements provided in **Procedure 25**. By physical inspection, determined that the same information was made available for public inspection at the principal place of business of the ILECs. The company made no claims of confidentiality for nondisclosure, and therefore no testing was required to obtain details. Noted SBC did not post written agreements between the ILECs and ADSI on the Company's home page on the Internet and did not make such information available for public inspection. SBC management represented that ADSI is not an Advanced Services Affiliate as defined by the Merger Conditions and therefore is not subject to the requirement to post written agreements and make such information available for public inspection.

APPENDIX C (continued)

Inquired and documented the procedures that the ILECs have in place for posting affiliate transactions on a timely basis. Determined that the information provided on the Internet was sufficiently detailed and complied with accounting rules listed in **Procedure 22**. Obtained copies of these public postings.

Supplemental Information

AADS has established a process whereby affiliate transactions are identified and reported to its AADS Finance Regulatory Compliance Manager, the affiliates group staff, Corporate Finance and Legal. This process was initiated to ensure that the public disclosure requirements for 10-day posting are met. This process requires monthly department questionnaires to be submitted to the AADS Finance Regulatory Compliance Manager by the 10th of every month. Monthly, the AADS Finance Regulatory Compliance Manager will forward the questionnaire responses to Corporate Finance and the affiliates group staff. AADS's policy is to comply with federal regulatory requirements to publicly disclose, on the Internet, all agreements between AADS and Ameritech.

ASI has established a process whereby ASI's Area Manager-Affiliate Billing Administration ("Area Manager-ABA") oversees and reviews the posting of affiliate agreements onto SBC's Internet website (www.sbc.com). SBC Services-Web Services Group posts the affiliate agreements to a test site after they have been submitted for posting by the ASI Area Manager-ABA. Once posted to the test site, the ASI Area Manager-ABA reviews the site to ensure that the agreement is complete and accurate. Once the ASI Area Manager-ABA approves the agreement, SBC Services-Web Services Group transfers the agreement from the test site to the www.sbc.com site.

As Originally Presented in Appendix A

- 28) For nontariffed services and for services for which a prevailing market price ("PMP") has not been established, or which are not subject to agreements filed with a public service commission, documented the ILECs' and the Advanced Services Affiliates' process for developing fully distributed cost ("FDC"). Documented and identified the type of costs included in FDC and documented SBC's calculation of FDC for two services provided by each ILEC to an Advanced Services Affiliate and by each Advanced Services Affiliate to an ILEC. If fewer than two services existed at FDC between an ILEC and an Advanced Services Affiliate, obtained documentation of the calculation of FDC for all such services.

Supplemental Information

The following summarizes the documentation provided by SBC regarding the processes the ILECs and Advanced Services Affiliates' utilized to develop FDC:

APPENDIX C (continued)

AADS and Ameritech

FDC rates are developed using a total expense base methodology. Overhead expenses are based on prior year actual recurring expenses for the following four specific expense groups: plant expenses, customer expenses, general support expenses and corporate expenses. Return on investment, depreciation, taxes and network administration expenses are included in expenses related to investment.

ASI, SWBT, Pacific and Nevada Bell

The process employed by ASI, SWBT, Pacific and Nevada Bell for developing FDC is documented in Operating Practice 125. Types of costs included in FDC include average wage rate, benefits, support assets, supervision and general/other expenses.

SNET

SNET calculates FDC based on the average wage of the employee performing the specific function plus applicable loadings applied to that average wage. The following loading factors are considered when developing FDC: benefits, corporate expense, engineering expense, facility, idle time and plant expense.

The services for which FDC studies were selected for testing and types of costs included in the FDC were as follows:

- SWBT – Oracle financial support and customer services support FDC studies were reviewed. Noted that the types of costs included in FDC were hourly labor costs, inflation rate factors, commission assessment factors and affiliate loading for overhead costs.
- Pacific – Technical support and detail engineering FDC studies were reviewed. Noted that the types of costs included in FDC were hourly labor cost, inflation rate factors, commission assessment factors and affiliate loading for overhead costs.
- Nevada Bell – Nevada Bell FDC studies were not reviewed as there were no services being provided from Nevada Bell to an Advanced Services Affiliate during the Evaluation Period.
- SNET – Customer service and network architecture, planning, engineering design and assessment service FDC studies were reviewed. Noted that the types of costs included in FDC were hourly labor cost and loadings for benefits, corporate expenses, engineering, facility, idle time and plant.

APPENDIX C (continued)

- Ameritech – Easy find/official board and mail services FDC studies were reviewed. Noted that types of costs included in FDC were labor costs, mail costs, vehicle expense and system loading costs.
- AADS – Frame Relay and Remote Office Access Manager (ROAM) FDC studies were reviewed. Noted that the types of costs included in FDC were DS3 entrance facility, frame relay DS0, frame relay DS1 fractional speeds, frame relay DS1, permanent virtual circuit weighted average distribution of pre-merger frame relay circuits, equipment, transport, service location, help desk and enhanced billing and modem level monitoring reports, client implementation and project management.
- ADSI – The only service provided by ADSI to an ILEC was the leasing of DSLAMs to SWBT, therefore it is the only service reviewed. Noted that the types of costs included in FDC were labor costs, equipment costs and loading for shipping, sales tax, installation and maintenance.
- ASI – The only service provided by ASI to the ILEC was the continuation of leasing of DSLAMs to SWBT after ADSI merged into ASI on December 20, 1999. As this was the continuation of the ADSI lease, the same FDC study noted above was used.

As Originally Presented in Appendix A

- 29) For nontariffed services for which a PMP has not been established, or which are not subject to agreements filed with a public service commission, documented the process the ILECs and the Advanced Services Affiliates follow to make an estimate of fair market value (“FMV”). Obtained documentation of the calculation of the estimate of FMV for two services provided by each ILEC to an Advanced Services Affiliate and by each Advanced Services Affiliate to an ILEC. If fewer than two services existed at FMV between an ILEC and an Advanced Services Affiliate, obtained documentation of the calculation of the estimate of FMV for all such services.

Supplemental Information

The processes the ILECs and the Advanced Services Affiliates follow to make an estimate of FMV is as follows:

APPENDIX C (continued)

ASI, SWBT, Pacific, Nevada Bell and SNET

In practice, the company will obtain an estimate of FMV from an independent third-party source for those services that would reasonably be expected to occur in an open market between unrelated parties. Generally the independent third party is a consultant that obtains price quotes from three to five unaffiliated companies nationwide who perform comparable services in the marketplace. For specific cases where services would not occur in the open market, the Affiliate Issues Group would work with ASI to determine the methodology that would best provide a good faith estimate for the FMV for those services.

AADS, Ameritech

Ameritech's policy is to obtain FMV for services provided between affiliates based on the specific nature of the service. Ameritech uses three different methods to represent a good faith effort in establishing market price. The first method is based on the sales price of the service to an outside third party. The second method compares fully distributed internal costs to prices charged by outside vendors for comparable services. The third method compares internal labor and benefit costs to professionally prepared industrial salary and benefits surveys.

As Originally Presented in Appendix A

- 30) Obtained a listing and amounts of all services rendered by month by each ILEC to each Advanced Services Affiliate on or after the Merger Close Date and noted that no services, other than transitional services permitted by the Merger Conditions, were made available to the Advanced Services Affiliates that were not made available to third parties. For a sample of seven services selected by the users, compared unit charges to PMP, or FDC, or FMV, as appropriate, and determined that these amounts were recorded in the books of the ILECs in accordance with the affiliate transaction standards.

Supplemental Information

The table below listed the services provided by each ILEC during the Evaluation Period. No transitional services were provided by Nevada Bell. The Company provided a schedule that indicated that all transitional services shown below, except those provided by SNET, were made available to third parties.

APPENDIX C (continued)

Services Provided by SWBT	Provided to:		
	ASI	ADSI	AADS
Real Estate Management	X		
Temporary Services	X		
Purchasing & Contracting	X	X	
Legal	X	X	
General Ledger Account	X		
Accounts Payable Support	X		
Network Support	X		
Oracle Financial Support	X		
Fixed Asset Processing	X		
Customer Support Services	X		
Billing Operations Project Management	X		
Billing Operations Support	X		
Network Planning & Engineering	X		
Services Provided by Pacific			
Information Technology	X		
Billing Services	X		
Temporary Services	X		
Procurement Services	X		
Regulatory Services	X		
Network Planning & Engineering	X	X	
Services Provided By SNET			
Network Architecture, Planning, Engineering, Design & Assignment	X		
Services Provided by Ameritech			
Call Direction			X
Mail Services			X
Lease Property			X
Collocation & Resale Interconnection Services			X
Interlata Data Circuits			X
Facilities Usage Expense			X

APPENDIX C (continued)

The sample of seven services tested were as follows:

SWBT to ASI	Network Support (priced at FMV) and Temporary Services (priced at FDC)
Pacific to ASI	Information Technology (priced at FDC), Temporary Services (priced at FDC) and Network Planning and Engineering (priced at FDC)
SNET to ASI	Network Architecture, Planning, Engineering, Design and Assignment (priced at FDC)
Pacific to ADSI	Network Planning and Engineering (priced at FDC)

Noted that payments were made by the Advanced Services Affiliates to the ILECs for the sample of seven services tested.

As Originally Presented in Appendix A

- 31) Obtained a listing of all services rendered by month to each ILEC by each Advanced Services Affiliate on or after the Merger Close Date. For all services provided during the Evaluation Period, compared unit charges to tariff rates, or PMP, or FDC, or FMV, as appropriate, and determined that expense for these services was recorded in the books of the ILECs in accordance with the affiliate transaction standards. Noted that for one service, the ILECs (Ameritech) were charged the rounded amount of \$21.00 during each month of the Evaluation Period, while the FDC was calculated at \$21.17.

Supplemental Information

The services rendered to each ILEC by each Advanced Services Affiliate are as follows:

To/From	Service	Total Evaluation Period Billings
AADS to Ameritech	Frame relay (priced at FDC) and remote office access manager (ROAM) (priced at FDC)	\$ 4,705,546
ASI/ADSI to SWBT	Leasing of DSLAMs (priced at FDC)	1,517,652

Noted that payments were made by the ILECs to the Advanced Services Affiliates for the services rendered with the exception of ROAM charges which could not be documented by the ILEC accounting department.

APPENDIX C (continued)

As Originally Presented in Appendix A

- 32) Inquired and documented how and who maintains each Advanced Services Affiliate's employee benefit plans (such as life insurance, health insurance and retirement plans). Determined by inquiry who pays or funds these benefit plans and that the costs for administering these plans are allocated to the Advanced Services Affiliates.

Supplemental Information

SBC represented that employee benefit plans (such as life insurance, health insurance, retirement plans) for ASI and ADSI were maintained by a Benefits department within SBC Communications Inc. The costs of the plans were charged to the Advanced Services Affiliate based on either specific cost assignment or an allocation methodology. ASI and ADSI are billed quarterly for all plan expenses.

During the Evaluation Period, employees of AADS participated in the Ameritech Management Pension Plan and Ameritech Savings Plan. These plans were administered by a third-party vendor. The annual costs of these plans are allocated to all subsidiaries based on payroll.

Health and welfare benefit plans for AADS employees were maintained by the Ameritech Benefit Finance department, a division of Ameritech Services, Inc. Health and welfare plan costs, except medical plan costs, are charged and tracked to each subsidiary based on actual costs incurred by that subsidiary's employees. AADS was one of several small subsidiaries that participated in a cost sharing pool for medical plan costs. Medical plan expenses are allocated among the pool participants based on active employee force counts.

As Originally Presented in Appendix A

- 33) Obtained a listing and amounts of services rendered by month by each affiliated administrative services organization to each Advanced Services Affiliate on or after the Merger Close Date and documented the methodology used to identify and cost these services. Selected two services provided to each Advanced Services Affiliate that represented the highest dollar value in the population for the Evaluation Period. Obtained evidence that the services were billed to each Advanced Services Affiliate and that such affiliates paid for these services.

APPENDIX C (continued)

Supplemental Information

The methodology used to identify and cost services rendered by each affiliated administrative services organization to each Advanced Services Affiliate was as follows:

Administrative Services to AADS	All services provided to AADS by an administrative services organization (Ameritech Services, Inc.) were provided at FDC.
Administrative Services to ASI	The SBC Administrative Services organization utilized a cost allocation system that effectively matches the benefits of services provided by SBC with the cost of those services. This is accomplished by following the methodology of directly charging expenses to ASI and/or SBC's other subsidiaries whenever possible. Costs which cannot be directly assigned are allocated based initially on direct causal (measure of use) allocation factors and secondly on indirect or general allocation factors, which are indicators of the general level of business activity underlying the expense.

As Originally Presented in Appendix A

- 42) Inquired and documented the ILECs' procedures for disseminating information about network changes, establishing or adopting new network standards and making available new network services to each Advanced Services Affiliate and to unaffiliated entities. Determined that no differences existed between the procedures used to notify Advanced Services Affiliates and unaffiliated entities.

Supplemental Information

The documentation supporting the ILECs' process for notification of network changes contains no distinction between notification processes for Advanced Services Affiliates and unaffiliated entities. Once a project plan is reviewed, a determination is made as to whether notice is required. If notice is required, the project is control numbered, then determined as either short-term or long-term. Then the notification document is prepared and the project is forwarded on to the Facility Equipment Engineer for preparation of the project package and to the Engineering Single Point of Contact ("SPOC"). The Engineering SPOC reviews the notification document for compliance and then forwards the notification document to the regulatory department. The regulatory department then files the notification document for all long-term projects with the FCC. The regulatory department informs all telephone exchange providers of short-term projects by mail, then files the notification document for

APPENDIX C (continued)

short-term projects with the FCC after five days. These notices are posted on the SBC (www.sbc.com), Public Affairs, Network Disclosures section. This section is organized by SBC network disclosures, then by each ILEC.

As Originally Presented in Appendix A

- 44) Where Advanced Services orders should be placed by the separate Advanced Services Affiliate as defined by the Merger Conditions (see Merger Conditions paragraphs 6a, 6b and 6d), observed by listening in to a sample of 92 service representatives in 19 separate locations of the ILECs and Advanced Services Affiliates responding to inbound callers and outbound callers to whom the sales representatives attempt to market the Advanced Services of the Advanced Services Affiliate. Documented the messages conveyed during the observation. If an order was taken for an Advanced Service by the ILEC's service representative, determined and documented that the service representative referred the information necessary for placement of the order to the Advanced Services Affiliate.

Supplemental Information

Of the calls monitored, E&Y noted 42 calls which related to Advanced Services, specifically DSL service. No exceptions to the procedures outlined in the Merger Conditions, paragraphs 4b, were noted. Topics of these calls were as follows:

- Customers placed DSL orders, orders were forwarded on to Advanced Services Affiliate for processing
- Inquired about DSL, but service not available in customer area
- Inquired about DSL, engineering to check on availability of service
- DSL installation or order status inquiries
- Inquiries about DSL, no service ordered during call
- DSL hardware inquiry
- Cancellation of DSL service
- Internet questions related to DSL service

E&Y also listened in on phone calls that were not related to Advanced Services. The primary topics of the non-Advanced Service calls were billing and payment inquiries, cancellation or change of service, service requests for new or existing service and inquiries about special service options (caller ID, voicemail, call forwarding, etc.).

As Originally Presented in Appendix A

- 46) Obtained a list of all applications filed by an Advanced Services Affiliate (AADS) during the Evaluation Period. For a random sample of 25 collocation applications selected from this list, obtained the application and documented in our working papers which Advanced Services Affiliate filed the application, the location, collocation type and date of application. Additionally, for 9 of the 25 in this sample,

APPENDIX C (continued)

vouched payment of nonrecurring charges for placing the equipment into service to treasury records and traced the payment to the respective ILEC's general ledger. Noted that payment had not been made for nonrecurring charges for 16 of the applications. The ILEC indicated that due to an error in the billing process in the Former Ameritech States, bills were not issued in some instances to either the Advanced Services Affiliate or nonaffiliated Competitive Local Exchange Carriers for collocation services of the same type.

SBC indicated that collocation applications for one of the Advanced Services Affiliates were not required to be filed during the Evaluation Period. The Company's understanding is set forth in the Company's letter dated February 15, 2000 (letter from Mr. Michael Kellogg on behalf of the Company to Ms. Carol Matthey of the FCC), and is based on the collocation transition mechanisms contained in subparagraphs I(3)(c)(3), I(3)(d), I(3)(e), I(4), I(4)(a)(3), I(4)(n)(4), I(6) and I(6)(g) in the Merger Conditions.

Obtained a list of all locations where Advanced Services Equipment was placed by the Advanced Services Affiliates during the Evaluation Period and compared this list to the list of all applications filed by the Advanced Services Affiliates during the Evaluation Period. Noted that none of the collocation applications filed by the Advanced Services Affiliates during the Evaluation Period were completed and provisioned during the Evaluation Period; thus there were no common items found on both lists.

Obtained a copy of the October 22, 1999 "Deployment Plan" (SBC's planning document for the rollout of Advanced Services by central office) and documented the central offices where SBC indicated that Advanced Services Equipment had been placed during the Evaluation Period.

APPENDIX C (continued)

Supplemental Information

AADS filed collocation applications for virtual collocation during the Evaluation Period. Caged or cageless collocation arrangements were not requested by AADS. ASI did not file collocation applications during the Evaluation Period. Below is a listing of the location, type and date of the 25 applications in our sample filed by AADS during the Evaluation Period:

CLEC Name	Date
AADS	Nov. 16, 1999
AADS	Nov. 16, 1999
AADS	Dec. 17, 1999
AADS	Dec. 17, 1999
AADS	Dec. 17, 1999
AADS	Dec. 21, 1999
AADS	Dec. 21, 1999
AADS	Dec. 21, 1999
AADS	Dec. 22, 1999
AADS	Dec. 22, 1999
AADS	Dec. 22, 1999
AADS	Dec. 22, 1999
AADS	Dec. 22, 1999
AADS	Dec. 28, 1999
AADS	Dec. 28, 1999
AADS	Dec. 28, 1999
AADS	Dec. 28, 1999
AADS	Dec. 28, 1999
AADS	Dec. 28, 1999
AADS	Dec. 17, 1999
AADS	Dec. 28, 1999
AADS	Dec. 28, 1999
AADS	Dec. 29, 1999
AADS	Dec. 29, 1999
AADS	Dec. 29, 1999

APPENDIX C (continued)

We noted AADS filed applications for all locations where Advanced Services Equipment was placed within the ILECs' central office during the Evaluation Period in the Former Ameritech States. ASI did not file any collocation applications where Advanced Services Equipment was placed during the Evaluation Period in the Former SBC States.

As Originally Presented in Appendix A

- 47) Inquired and noted that the ILEC's, where applicable (Ameritech), were reporting, for each state, the performance measurements for the Advanced Services Affiliates as required by paragraph 10 of the Separate Affiliate Requirements. Noted by inquiry these measurements were reported on a separate basis from the CLEC information.

Obtained a list of the Advanced Services provided, by state, by the Advanced Services Affiliates and the ILECs during the Evaluation Period. Also, inquired and documented that voice grade services were not being provided by the Advanced Services Affiliates in any state.

Supplemental Information

SWBT, Pacific, Nevada Bell and SNET did not report performance measurements for ASI during the Evaluation Period.

ASI did not provide Advanced Services in the Former SBC States during the Evaluation Period.

AADS provided the following Advanced Services in the Former Ameritech States during the Evaluation Period:

- Asynchronous Transfer Mode ("ATM") services
- Frame Relay services
- Switched Multimegabit Data Services ("SMDS")
- Advanced Digital Subscriber Line ("ADSL")
- Other Network Services
 - Ameritech Custom Facility – SMDS
 - Ameritech ROAM – SMDS
 - Ameritech Sonet
 - Ameritech Remote ATM Service
 - Managed Automated Teller Service Integrated Services Digital Network – ("ISDN")
 - ROAM – ISDN
 - Ameritech Electronic Business Exchange – Dial up Service
- Equipment services